Section 1. The Old-Age and Survivors Insurance Program (OASI)

The old-age and survivors insurance (OASI) program provides monthly benefits to retired workers and their dependents and to survivors of insured workers. Old-age retirement benefits were provided for retired workers by the original Social Security Act of 1935, and benefits for dependents and survivors were provided by the 1939 amendments. The disability insurance (DI) cash benefits program, enacted in 1956, and the hospital insurance (HI) program, enacted in 1965, are closely related to the old-age and survivors insurance program. (These related programs are discussed in later sections.)

GENERAL

A worker builds protection under these programs through employment that is covered by the Social Security system. Coverage is generally compulsory. However, employees of State and local governments who are members of a public retirement system are covered on a voluntary group basis.\1\ Currently, an estimated 96 percent of the Nation's paid work force is covered either voluntarily or mandatorily.

\1\State and local coverage is voluntary for the OASI and DI programs for those employees who are members of a public retirement system. However, it became mandatory for HI purposes for

persons hired
by State or local governments on or after April 1, 1986.
Once a State
or local government entity joins the system, it cannot opt
out.

Contributions for wage and salaried workers are made under the Federal Insurance Contributions Act (FICA, chapter 21 of the Internal Revenue Code). Contributions are based on earnings up to the annual maximum taxable wage base ($60,600 in 1994 for OASDI and no limit for HI). The employee contribution is withheld from wage and salary payments to employees and is matched by employers. Self-employed persons are covered by the Self-Employment Contributions Act (SECA, chapter 2 of the Internal Revenue Code). They pay contributions on their net earnings annually up to the same maximum as employees, but at a rate that is equal to the combined employee-employer tax rate. However, the self-employed may deduct 7.65 percent from their net earnings before computing their Social Security tax and may also deduct half of their Social Security tax as a business expense for income tax purposes.

Revenue from the OASI portion of the tax is credited automatically to the Old-Age and Survivors Insurance Trust Fund. In addition, the revenue derived from the taxation of a portion of Social Security retirement and survivors' benefits is credited to the OASI trust fund. The trust fund is the source of payment for: (1) monthly benefits when the worker retires or dies (including a financial interchange with the railroad retirement system), and (2) administrative expenses for the program. A discussion of OASDI administrative costs may be found in section 3.

BENEFITS

Summary

Monthly cash benefits under OASI are paid as a matter of earned right to workers who are insured for benefits and to their eligible dependents and survivors. Generally, benefit amounts paid both to the insured worker and to the insured worker's dependents or survivors are related to the past earnings of the insured worker. An individual may be entitled to benefits as a worker based on his own earnings history and also to benefits as a dependent of another worker. However, the amount of the benefit is adjusted so that, in effect, only the larger of the two benefits is paid.

In December 1993, there were 42.2 million beneficiaries in the OASI and DI programs who were in current-payment status. Monthly benefits paid out were $25.7 billion.

Table 1-1 summarizes various types of beneficiaries and average benefit amounts. Table 1-2 shows total OASI and DI benefits paid in past years.

TABLE 1-1.--OASDI CASH BENEFITS IN CURRENT-PAYMENT STATUS AND NEW AWARDS, DECEMBER 1993

	Number in current payment (thousands)	Percent of beneficiary population	Average monthly benefit	Number of new awards (in thousands)	Average new award
Total monthly beneficiaries..................	42,246	100.0	$607	4,001	$530
Retired workers......................................	26,104	61.8	674	1,661	647
Wives and husbands of retired workers...............	3,094	7.3	347	291	315
Children of retired workers.........................	436	1.0	297	107	277
Disabled workers....................................	3,726	8.8	642	635	638
Wives and husbands of disabled workers..............	273	.6	156	75	158
Children of disabled workers........................	1,255	3.0	173	399	158
Widowed mothers and fathers.........................	289	.7	448	56	435
Surviving children..................................	1,836	4.3	443	311	436
Widows and widowers.................................	5,077	12.0	630	434	624
Disabled widow(er)s.................................	147	.3	434	32	431
Parents...	5	.01	547	(\1\)	545
Special age-72......................................	2	0	183	(\1\)	145

\1\Fewer than 500.

Source: Office of Research and Statistics, Social Security Administration.

TABLE 1-2.--TOTAL OASDI BENEFITS PAID
[In millions]

Year	Total	OASI	DI
1937	$1	$1	....
1940	35	35	....
1950	961	961	....
1960	11,245	10,677	$568
1970	31,863	28,796	3,067
1980	120,511	105,074	15,437
1985\1\	186,196	167,360	18,836
1990\1\	247,796	222,993	24,803
1991\1\	268,098	240,436	27,662
1992\1\	419,325	254,939	31,091

\1\Unnegotiated checks not deducted.

Source: Social Security Bulletin, Annual Statistical Supplement, 1992, table 4.A4.

Brief history

The 1935 Social Security Act provided monthly benefits to retired workers age 65 and over and a lump-sum death benefit to the estate of these workers. The monthly benefits were to first be paid beginning January 1, 1942. The 1939 Social Security Amendments provided benefits to dependents--wives aged 65 and over and children under age 16 (changed to 18 in 1946)--of retired workers, and to survivors--widows aged 65, mothers with eligible child in care, children under age 16, and dependent parents--of deceased workers. In addition the 1939 Amendments provided that these benefits first be paid in 1940.

Benefits that have been added in the retirement and survivors programs since 1939 include: retired women aged 62-64 (1956); retired men aged 62-64 (1961); widows aged 60-64 (1956 and 1965); widowers aged 60 and over (1950, 1961, and 1972); and disabled widows age 50 and over (1967).

In 1956, benefits were extended to disabled workers aged 50-64 and to disabled children of retired, disabled, or deceased workers age 18 and over, if they became disabled prior to age 18 (changed to disabled prior to age 22 in 1973). The 1958 Amendments provided benefits to dependents of disabled workers on the same basis as dependents of retired workers. Benefits for disabled workers under age 50 were provided in 1960.

Monthly cash benefits have been increased on an ad hoc basis 10 times prior to the first automatic cost-of-living adjustment which was incorporated in the act by the Social Security Amendments of 1972. Beginning with the 1975 increase, benefits have been automatically adjusted to keep pace with inflation. Since 1975, there have been increases annually except during calendar year 1983, when the adjustment was delayed 6 months (see table 1-12).

Description of major benefit types

Child's benefit. Under the OASI program, a monthly benefit is payable to an unmarried child or eligible dependent grandchild of a retired worker or a deceased worker who was fully or currently insured at death if the child or grandchild is: (1) under age 18; (2) a full-time elementary or secondary student under age 19; (3) a disabled person aged 18 or over whose disability began before age 22. A grandchild is eligible for benefits on a grandparent's earnings record if the child was adopted by the grandparent. If adopted by the surviving spouse of that grandparent, the child would be eligible if he or she lived with or received one-half support from the grandparent prior to the grandparent's death. Even in cases where the child has not been adopted by the grandparent (or his or her surviving spouse), if the child's parents became disabled or died before the grandparent became entitled to benefits or died, the child would be eligible if he or she had lived with and relied on the grandparent for one-half support prior to the grandparent's entitlement or death.

Lump-sum death benefit. A lump-sum payment is payable upon the death of a fully or currently insured worker to the surviving spouse who was living with the deceased worker or was eligible to receive monthly cash survivor benefits upon the worker's death. If there is no eligible spouse, the lump-sum death payment is payable to any child of the deceased worker who is eligible to receive monthly cash benefits as a surviving child. If there is no surviving spouse and no children of the worker eligible for monthly benefits, then the lump-sum death payment is not paid. The payment amount is $255.

Minimum benefit. The minimum benefit is the smallest benefit (before actuarial reduction or earnings test reduction) payable to a worker or his or her survivors/dependents. In 1977, the minimum benefit was frozen at $122 per month for all workers who reached age 62 or became disabled after 1978 and all survivors of workers who died after 1978. Legislation in 1981 eliminated the minimum benefit for all persons becoming eligible for benefits in January 1982 or later (except for certain members of religious orders who have taken a vow of poverty; such persons who became eligible in 1982-91 are exempt from the new law). These persons have their benefits computed under the regular benefit computation rules. Persons eligible for benefits prior to January 1, 1982 are able to continue receiving the minimum benefit, which is subject to annual cost-of-living adjustments.

Mother's or father's benefit. A monthly benefit is payable to a widow (widower) or surviving divorced mother (father) if:
(1) the deceased worker on whose account the benefit is paid

was fully or currently insured at time of death and (2) the widow (widower) or surviving divorced mother (father) has one or more entitled children of the worker in her care. These payments continue as long as the youngest child being cared for is under age 16 or disabled.

Parent's benefit. This is a monthly benefit payable to a dependent parent, age 62 or over, of a deceased fully insured worker.

Retired-worker (old-age) benefit. This is a monthly benefit payable to a retired worker aged 62 or over who is fully insured.

``Special age-72'' benefit. This is a monthly benefit payable to certain persons born before January 2, 1900, who do not have sufficient quarters of coverage to qualify for a retired-worker benefit. The benefit is payable only for months in which the individual is a resident of the 50 States, the District of Columbia, or the Northern Mariana Islands and receives no public assistance cash payments or SSI payments. It is reduced by the amount of any government pension (except workers' compensation and veterans' service-connected compensation) that the individual is receiving or is eligible to receive. When husband and wife are both eligible for these benefits, a full benefit is paid to each spouse.

Special minimum benefit. This is a benefit that is not based on the worker's average monthly wage or average indexed monthly earnings, but instead on his/her length (years) of covered employment. It is designed to help those who worked in covered employment for many years but had low earnings. The amount of the special minimum is computed by multiplying the number of years of coverage in excess of 10 and up to 30 by $11.50 for monthly benefits payable in 1979, with automatic cost-of-living increases applicable to years 1979 and later. The number of years of coverage equals the number obtained by dividing total creditable wages in 1937-50 by $900 (not to exceed 14), plus the number of years after 1950 and before 1991 for which the worker is credited with at least 25 percent of the annual maximum taxable earnings. For this purpose for years after 1978, annual maximum taxable earnings are defined as the ``old-law'' taxable earnings base (i.e., the hypothetical earnings base that would be in effect if the ad hoc increases in the base enacted in 1977 were disregarded). In addition, for years after 1990, a year of coverage is earned if the worker is credited with at least 15 percent of the ``old-law'' taxable earnings base. The special minimum benefit is not subject to the delayed-retirement-credit provisions.

Spouse's benefit. This is a monthly benefit payable to a spouse or divorced spouse of a retired worker under one of the following conditions: (1) currently married spouse is aged 62 or older or is caring for one or more of the worker's entitled children who are disabled or have not reached age 16; or (2) divorced spouse is aged 62 or older, is not married, and the marriage to the worker had lasted 10 years before the

divorce
became final. A divorced spouse may be entitled independently
of the worker's retirement under certain circumstances.

Widow's or widower's benefit. This is a monthly benefit payable to a widow(er) or surviving divorced spouse of a worker
fully insured at the time of death if he or she is unmarried,
or remarriage occurred after the widow(er)'s first eligibility
for benefits; and (a) is aged 60 or older or (b) aged 50-59 and
has been disabled throughout a waiting period of 5 consecutive
calendar months that began no later than 7 years after the
month the worker dies or after the end of her entitlement to
benefits as a widowed mother.

BENEFIT ELIGIBILITY: INSURED STATUS

Benefits can only be paid to workers, their dependents or
survivors if the worker is ``insured'' for these benefits.
Insured status is measured in terms of ``quarters of coverage.''

Prior to 1978, one quarter of coverage was earned for each
calendar quarter in which a worker was paid $50 or more in
wages for covered employment (except for agricultural labor).
Since the beginning of 1978 the crediting of quarters of
coverage has been on an annual rather than a quarterly basis.
In 1978, a worker earned one quarter of coverage, up to a total
of four, for each $250 of annual earnings reported from covered
employment or self-employment. The amount of annual earnings

needed for a quarter of coverage is subject to annual automatic increases, effective in January of each year, in proportion to increases in average wages in the economy. In 1994, the amount is $620 for workers.

For the purpose of the OASI program, there are two types of insured status: ``fully insured'' and ``currently insured.'' Workers are fully insured for benefits for themselves and for their families if they have one quarter of coverage (earned at any time after 1936) for every four quarters elapsing after 1950, or the year of reaching age 21, if later, up to the year in which they reach age 62, become disabled, or die. Fully insured status is required for eligibility for all types of benefits except certain survivor benefits. A person must have at least six quarters of coverage to be fully insured. A person with 40 quarters of coverage is fully insured for life.

Workers are currently insured if they have six quarters of coverage during the thirteen calendar quarters ending with the quarter in which they died. Currently insured status by itself provides that the worker's surviving family members are eligible for child's, mother's, father's and lump-sum death benefits.

TABLE 1-3.--AMOUNT OF COVERED EARNINGS NEEDED TO EARN ONE QUARTER OF COVERAGE SINCE 1978

Year

Amount

1978	$250
1979	260
1980	290
1981	310
1982	340
1983	370
1984	390
1985	410
1986	440
1987	460
1988	470
1989	500
1990	520
1991	540
1992	570
1993	590
1994	620
1995	\1\640
1996	\1\660

1997	\1\680
1998	\1\710
1999	\1\740

\1\Based on economic assumptions in the President's FY 1995 Budget.

Source: Office of the Actuary, Social Security Administration.

BENEFIT COMPUTATION

The amount of a monthly benefit award is determined by first computing an insured worker's average monthly wage (AMW) or--in the case of most workers who attain age 62, become disabled, or die after 1978--average indexed monthly earnings (AIME). The AMW is used in computing benefits under the old (pre-1979) benefit formula, and the AIME is used in computing benefits under the new (post-1978) benefit formula enacted in 1977. The AMW or AIME is linked (by a table or by a formula, respectively, in the law) to the monthly retirement benefit payable at that worker's normal retirement age. This amount is called the primary insurance amount (PIA). Benefits for dependents and survivors are calculated as a percentage of the insured worker's PIA. The calculated amounts may be subject to minimum levels, and all benefits are subject to maximum limits. Benefits payable to workers, spouses, widows, and widowers who choose to retire before their normal retirement age are subject to an actuarial reduction. Benefits payable to workers who choose to retire after their normal retirement age are subject to increase through the delayed retirement credit, as are the benefits payable to their widows and widowers. The delayed retirement credit is 1 percent per year for workers age 65 before 1982 and 3 percent per year for workers age 65 before 1990. Starting in 1990, the delayed retirement credit increases by one-half of 1 percent every other year until it reaches 8 percent for workers reaching age 65 after 2007.

The normal retirement age

The normal retirement age is the earliest age at which unreduced retirement benefits can be received. The normal retirement age is presently age 65, but will be gradually increased to age 67 beginning in 2000.\2\ For persons reaching age 62 in 2000, the normal retirement age will be increased by 2 months--to age 65 and 2 months. In each succeeding year, the normal retirement age will be increased by 2 additional months until it reaches age 66 for persons attaining age 62 in 2005. The normal retirement age will then remain at age 66 for persons attaining age 62 through 2016. Beginning with persons attaining age 62 in 2017, the normal retirement age will again increase by 2 months each year, until it reaches age 67 for persons attaining age 62 in 2022 and later. Table 1-5 shows the schedule of increases in the normal retirement age.

\2\Changes in the normal retirement age are a result of the Social Security Amendments of 1983 (P.L. 98-21).

Average wage index

The Social Security Administration average wage index (AWI) is the national average of total wages. It is adjusted to be consistent with the AWI series before 1978. (Prior to 1978, the AWI was four times the average taxable wages reported to SSA for the first calendar quarter.) For years prior to 1991, the AWI was based on wages subject to income taxes, as reported on W-2 forms filed by employers. For years beginning in 1991, contributions to certain deferred compensation plans, while not subject to income tax, are included in the AWI as a result of Public Law 101-239 (OBRA 1989). These contributions (i.e., 401(k) or salary-reduction retirement plan contributions) were added to the earnings basis for calculation of the AWI because they are subject to Social Security taxation in the same way as cash earnings. The AWI for any given calendar year is calculated by multiplying the prior year's AWI by the increase in average earnings (as described above) that occurred between those two years.

The increase in national average wages, as measured by the SSA AWI, is used to index a worker's earnings under the ``wage-indexed'' (AIME) benefit computation method and to automatically adjust certain wage-indexed program amounts (e.g., the maximum taxable earnings base, the retirement earnings test exempt amounts and the ``bend points'' in the formulas for determining primary insurance amounts and maximum family benefits).

Average indexed monthly earnings (AIME)

The AIME is a dollar amount that represents the average monthly earnings, adjusted for the change in the average of total wages\3\ in the economy (the SSA AWI), that was received by the worker during a number of years of his covered employment. Indexing creates an earnings record that reflects the value of the individual's earnings relative to national average earnings in the indexing year. The indexing year is the second year before the year in which the worker attains age 62 or, if earlier, becomes disabled or dies. Earnings in and after the indexing year are counted at their nominal value.

\3\Total wages includes wages that are not taxable for Social Security purposes (e.g., noncovered earnings and earnings above the taxable earnings base).

There are four steps in the calculation of the AIME: (1) indexing the worker's earnings for each year after 1950 by dividing the worker's posted earnings for the year being indexed by the average wages of all workers in that same year and multiplying this result by the average earnings in the indexing year; (2) determining the number of computation years--the number of years after 1950 (or the year of attainment of age 21, if later) and up to the year the worker attains age 62, becomes disabled, or dies, minus dropout years, generally 5 (minimum number of computation years is 2); (3) selecting the actual computation years, based on highest indexed earnings, from any years after 1950; and (4) dividing the sum of earnings in the computation years by the total number of months in the computation years.

The indexed earnings histories (rounded to whole dollars) are illustrated in table 1-4 for three different workers retiring in 1994 at age 62. The actual earnings for the three workers are shown in the first three columns. These are multiplied by the indexing factor (column 4) to arrive at indexed earnings (last 3 columns of table 1-4). The indexing factor for 1954 is average wages when an individual turned 60 ($22,935.42) divided by average wages for 1954 ($3,155.64). The lowest 5 years of indexed earnings may be dropped. For example, a lifelong full-time worker who had maximum-creditable earnings would be able to drop earnings in 1954, 1962, 1963, 1964, and 1965, and would have total indexed earnings of $1,421,412 (see table 1-4). Dividing this by the number of months in the computation period (35 years x 12 months=420 months) results in an average indexed monthly earnings (AIME) of $3,384. The corresponding AIME's for the average and low (defined as 45 percent of average wages) earners are $1,912 and $860, respectively.

TABLE 1-4.--EARNINGS HISTORIES FOR HYPOTHETICAL WORKERS AGE 62 IN 1994

[Rounded to nearest dollar]

Year	Nominal earnings: Low\1\	Nominal earnings: Average\2\	Nominal earnings: Maximum\3\	Indexing factor	Indexed earnings: Low\1\	Indexed earnings: Average\2\	Indexed earnings: Maximum\3\
1954	1,420	3,156	3,600	7.2681	\4\10,321	\4\22,935	\4\26,165
1955	1,486	3,301	4,200	6.9471	\4\10,321	\4\22,935	29,178
1956	1,590	3,532	4,200	6.4929	\4\10,321	\4\22,935	27,270
1957	1,639	3,642	4,200	6.2980	\4\10,321	\4\22,935	26,451
1958	1,653	3,674	4,200	6.2430	\4\10,321	\4\22,935	26,220
1959	1,735	3,856	4,800	5.9483	10,321	22,935	28,552

1960	1,803	4,007	4,800	5.7237	10,321	22,935	27,474
1961	1,839	4,087	4,800	5.6121	10,321	22,935	26,938
1962	1,931	4,291	4,800	5.3445	10,321	22,935	\4\25,654
1963	1,978	4,397	4,800	5.2166	10,321	22,935	\4\25,040
1964	2,059	4,576	4,800	5.0118	10,321	22,935	\4\24,056
1965	2,096	4,659	4,800	4.9231	10,321	22,935	\4\23,631
1966	2,222	4,938	6,600	4.6443	10,321	22,935	30,653
1967	2,346	5,213	6,600	4.3993	10,321	22,935	29,035
1968	2,507	5,572	7,800	4.1164	10,321	22,935	32,108
1969	2,652	5,894	7,800	3.8915	10,321	22,935	30,354
1970	2,784	6,186	7,800	3.7075	10,321	22,935	28,918
1971	2,924	6,497	7,800	3.5301	10,321	22,935	27,535
1972	3,210	7,134	9,000	3.2150	10,321	22,935	28,935
1973	3,411	7,580	10,800	3.0257	10,321	22,935	32,678
1974	3,614	8,031	13,200	2.8559	10,321	22,935	37,698
1975	3,884	8,631	14,100	2.6574	10,321	22,935	37,469
1976	4,152	9,226	15,300	2.4858	10,321	22,935	38,033
1977	4,401	9,779	16,500	2.3453	10,321	22,935	38,697
1978	4,750	10,556	17,700	2.1727	10,321	22,935	38,457
1979	5,166	11,479	22,900	1.9980	10,321	22,935	45,753
1980	5,631	12,513					

			25,900	1.8329	10,321	22,935	47,471
1981...........................	6,198	13,773	29,700	1.6652	10,321	22,935	49,457
1982...........................	6,539	14,531	32,400	1.5783	10,321	22,935	51,138
1983...........................	6,858	15,239	35,700	1.5050	10,321	22,935	53,729
1984...........................	7,261	16,135	37,800	1.4215	10,321	22,935	53,731
1985...........................	7,570	16,823	39,600	1.3634	10,321	22,935	53,990
1986...........................	7,795	17,322	42,000	1.3241	10,321	22,935	55,611
1987...........................	8,292	18,427	43,800	1.2447	10,321	22,935	54,518
1988...........................	8,700	19,334	45,000	1.1863	10,321	22,935	53,382
1989...........................	9,045	20,100	48,000	1.1411	10,321	22,935	54,772
1990...........................	9,463	21,028	51,300	1.0907	10,321	22,935	55,953
1991...........................	9,815	21,812	53,400	1.0515	10,321	22,935	56,151
1992...........................	10,321	22,935	55,500	1.0000	10,321	22,935	55,500
1993...........................	\5\10,589	\5\23,532	57,600	1.0000	\5\10,589	\5\23,532	57,600

\1\Worker with earnings equal to 45 percent of the SSA average wage index.
\2\Worker with earnings equal to the SSA average wage index.
\3\Worker with earnings equal to the Social Security maximum taxable earnings. \4\Dropout years.
\5\Estimate based on economic assumptions in the President's FY 1995 Budget.

Source: Office of the Actuary, Social Security Administration.

Average monthly wage (AMW)

The AMW, which is used in computing benefits under the old pre-1979 benefit formula, is computed by: (1) determining the number of computation years--the number of years after 1950 (or the year of attainment of age 21, if later) and up to the year the worker attains age 62 (age 65 for men born before January 2, 1911, and the later of age 62 or the year 1975 for men born after January 1, 1911), onset of disability or death, minus dropout years, generally 5 (minimum number of computation years is 2); (2) selecting the actual computation years, based on highest nonindexed earnings, from any years after 1950; and (3) dividing the sum of nonindexed earnings in the computation years by the total number of months in the computation years.

Primary insurance amounts (PIA)

The monthly benefit amount payable to a retired worker who begins to receive benefits at his normal retirement age is his PIA rounded to the next lower dollar, if not already a multiple of $1. The PIA is used as a base for computing all benefits which are payable on the basis of that worker's earnings record.

The method of determining the PIA generally depends on whether an AIME or an AMW was computed for the worker. (This, of course, depends on the worker's date of birth.) If an AMW has been computed for the worker, the PIA is determined through reference to benefit tables which are updated annually. Under a transitional guarantee provision of the 1977 amendments (which is applicable only to workers who attain age 62 in 1979-83), the PIA is determined on the basis of the frozen 1978 benefit table if it is higher than under the AIME method.

Other methods for determining a PIA also exist, and PIA's based on different methods must be compared to select the highest one. This highest PIA actually determines the worker's benefits. The most common of these other PIA's is the special minimum PIA. This PIA is designed to assist workers with long-term low earnings.

In cases where an AIME has been computed, the PIA is determined by applying the ``primary benefit formula'' to the AIME. For a worker reaching age 62 in 1994, the PIA equals 90 percent of the first $422 of AIME, 32 percent of the next $2,123 of AIME, and 15 percent of the AIME above $2,545. Applying this formula to the AIME's of the three example workers results in PIA's of $519.90 for the low-wage worker, $856.90 for the average-wage worker, and $1,185.00 for the maximum-wage worker. (For the low-wage worker, the 1994 special minimum PIA of $505.30 is less than the AIME-based PIA of $519.90, and therefore is not used to determine his or her benefits.) The numbers $422 and $2,545 are often referred to as ``bend points'' of the PIA formula. These are adjusted each year by the change in average wages. After the year of initial eligibility (age 62 for retired worker benefits), the PIA is increased each year for the increase in the Consumer Price Index (CPI). Thus, the PIA's of $519.90, $856.90, and $1,185.00 would be in effect for January through November 1994, and will be increased by the cost-of-living adjustment that will increase benefits beginning December 1994 under current law.

The PIA is recomputed each year if a worker over age 62 has earnings that were not included in the original computation. However, the PIA is only changed to reflect these earnings if they result in an increased PIA; additional earnings can never result in a decrease in the PIA.

BENEFIT AMOUNTS

The monthly benefit amount payable to a retired worker who begins to receive benefits at the normal retirement age is the PIA rounded to the next lower dollar, if not already a multiple of $1.

Workers attaining age 62 before 2000 (the year in which the retirement age begins to increase) who retire before age 65 will receive a benefit with an actuarial reduction. Retirement after normal retirement age results in an actuarial increase in the benefit payable.

TABLE 1-5.--INCREASES IN NORMAL RETIREMENT AGE AND

DELAYED RETIREMENT CREDITS, WITH RESULTING BENEFIT, AS A PERCENT OF PRIMARY INSURANCE AMOUNT [PIA], PAYABLE AT SELECTED AGES, FOR PERSONS REACHING AGE 62 IN 1986 OR LATER

Year of birth	Age 62 attained in--	``Normal retirement age''	Credit for each year of delayed retirement after normal retirement age	Benefit, as a percent of PIA, beginning at age-- 62	65	66	67	70
1924	1986	65	3	80	100	103	106	115
1925-26	1987-88	65	3\1/2\	80	100	103\1/2\	107	117\1/2\
1927-28	1989-90	65	4	80	100	104	108	120
1929-30	1991-92	65	4\1/2\	80	100	104\1/2\	109	122\1/2\
1931-32	1993-94							

65.........................   5   80
100   105   110   125
1933-34.................... 1995-96....................
65.........................   5\1/2\   80
100   105\1/2\   111   127\1/2\
1935-36.................... 1997-98....................
65.........................   6   80
100   106   112   130
1937....................... 1999.......................
65.........................   6\1/2\   80
100   106\1/2\   113   132\1/2\
1938....................... 2000.......................
65, 2 mo...................   6\1/2\   79\1/6\
98\8/9\ 105\5/12\ 111\11/12 131\5/12\
1939....................... 2001.......................
65, 4 mo...................   7   78\1/3\
97\7/9\   104\2/3\   111\2/3\   132\2/3\
1940....................... 2002.......................
65, 6 mo...................   7   77\1/2\
96\2/3\   103\1/2\   110\1/2\   131\1/2\
1941....................... 2003.......................
65, 8 mo...................   7\1/2\   76\2/3\
95\5/9\   102\1/2\   110   132\1/2\
1942....................... 2004.......................
65, 10 mo..................   7\1/2\   75\5/6\
94\4/9\   101\1/4\   108\3/4\   131\1/4\
1943-54.................... 2005-16....................
66.........................   8   75
93\1/3\   100   108   132
1955....................... 2017.......................
66, 2 mo...................   8   74\1/6\
92\2/9\   98\8/9\   106\2/3\   130\2/3\
1956....................... 2018.......................
66, 4 mo...................   8   73\1/3\
91\1/9\   97\7/9\   105\1/3\   129\1/3\
1957....................... 2019.......................
66, 6 mo...................   8   72\1/2\
90   96\2/3\   104   128
1958....................... 2020.......................
66, 8 mo...................   8   71\2/3\
88\8/9\   95\5/9\   102\2/3\   126\2/3\

1959	2021	66, 10 mo.	8	70\5/6\	87\7/9\	94\4/9\	101\1/3\	125\1/3\
1960 or later	2022 or later	67	8	70	86\2/3\	93\1/3\	100	124

Source: Social Security Bulletin, October 1984/Vol. 47, No. 10, p. 11.

After the year 2000, the minimum age of eligibility for reduced benefits will remain unchanged at age 62 (age 60 for widows and widowers). However, there will be increases in the amount of reduction for early retirement. The amount of reduction will be \5/9\ of 1 percent for each of the first 36 months of early retirement (as under present law), and \5/12\ of 1 percent for each month in excess of 36. Thus, for persons attaining age 62 during 2005-16, for whom the normal retirement age will be 66, the reduced benefit payable at age 62 will be 75 percent of the PIA. For persons attaining age 62 in 2022 and later, for whom the normal retirement age will be 67, the reduced benefit payable at age 62 will be 70 percent of the PIA. (See table 1-5.) There will be no increase in the maximum reduction for widow(er)s.

Auxiliary benefit amounts are also based on the worker's PIA. Table 1-6 lists major types of benefits with the percent of the insured worker's PIA which is paid.

TABLE 1-6.--PERCENTAGE OF PRIMARY INSURANCE AMOUNT (PIA) PAID FOR DEPENDENT'S AND SURVIVOR'S BENEFITS

Type of monthly benefit	Percent of PIA
Dependents:\1\	
Wives, husbands--age 65	\3\50.0
Mothers, fathers, children, grandchildren	50.0
Survivors:\1\	
Widows, widowers--age 65 \2\	\3\100.0
Dependent parent--age 62	82.5
Widows, widowers, disabled--age 50	71.5
Mothers, fathers, children	75.0

\1\Subject to maximum family benefit limitation.
\2\Subject to general limitation that survivor cannot get a higher benefit than deceased worker would be getting if alive.
\3\These percentages decrease as the normal retirement age increases beginning in the year 2000.

REPLACEMENT RATES

Frequently Social Security benefits are discussed in terms of how much of a person's preretirement earnings the benefits represent. Benefits expressed as a percent of earnings are called replacement rates. The following table shows replacement rates based on the PIAs of hypothetical workers who retired at normal retirement age after full-time careers with steady earnings equal to: (1) 45 percent of average earnings in the economy (as recorded through the Social Security average wage index), (2) 100 percent of average earnings in the economy, and (3) the maximum earnings taxable each year for FICA and SECA tax purposes.

TABLE 1-7.--SOCIAL SECURITY REPLACEMENT RATES, 1940-2040\1\

[In percent]

Year of birth	Year of attaining normal retirement age	Replacement rates\2\ Low earner\3\	Average earner\4\	Maximum earner\1\
1875	1940	39.4	26.2	16.5
1885	1950	33.2	19.7	21.2
1895	1960	49.1	33.3	29.8

1900..............................
1965.............................. 45.6
31.4 32.9
1905..............................
1970.............................. 48.5
34.3 29.2
1910..............................
1975.............................. \5\59.9
42.3 30.1

1911..............................
1976.............................. 60.1
43.7 32.1
1912..............................
1977.............................. 61.0
44.8 33.5
1913..............................
1978.............................. 63.4
46.7 34.7
1914..............................
1979.............................. 64.4
48.1 36.1
1915..............................
1980.............................. 68.1
51.1 32.5
1916..............................
1981.............................. 72.5
54.4 33.4
1917..............................
1982.............................. \6\65.8
\6\48.7 \6\28.6
1918..............................
1983.............................. \5\63.5
45.8 26.3
1919..............................
1984.............................. \5\62.6
42.8 23.7
1920..............................
1985.............................. \5\61.1
40.9 22.8
1921..............................

1986..............................   \5\60.3
41.1   23.1
1922................................
1987..............................   \5\59.5
41.2   22.6
1923................................
1988..............................   \5\58.4
40.9   23.0
1924................................
1989..............................   \5\57.9
41.6   24.1
1925................................
1990..............................   \5\58.2
43.2   24.5

1935................................
1991..............................   57.1
42.4   25.6
1944................................
2010..............................   56.0
41.7   27.1
1954................................
2020..............................   56.0
41.7   27.8
1963................................
2030..............................   55.7
41.5   27.6
1973................................
2040..............................   55.7
41.5   27.5

\1\Earnings equal to the maximum wage taxable for Social Security purposes.
\2\Total monthly benefits payable for year of entitlement at normal retirement age expressed as percent of
  earnings in year prior to entitlement for workers with steady career earnings. Normal retirement age will rise
  starting with workers who attain age 62 in 2000 and will ultimately reach age 67 for workers attaining age 62
  in 2022 and later. Projections for 1993 and later are

based on the intermediate II assumptions of the 1993 OASDI Trustees' Report.
\3\Earnings equal to 45 percent of the ``SSA average index.''
\4\Earnings equal to the ``SSA average wage index.''
\5\Special minimum benefit.
\6\``Transition guarantee'' under 1977 amendments.

Source: Office of the Actuary, Social Security Administration.

BENEFIT REDUCTION AND INCREASE

Social Security benefits may be reduced, withheld or increased for several reasons, chiefly on account of early retirement or delayed retirement, and on account of earnings in excess of the exempt amount provided in the law ($8,040 in 1994 for beneficiaries under age 65, and $11,160 for beneficiaries age 65-69). In addition, there is an overall limit on the total amount of benefits which can be paid at one time on the basis of any one earnings record.

Actuarial reduction. This is the reduction in the monthly benefit amount payable: (a) on entitlement at ages 62-64 if the beneficiary is a retired worker, a spouse of a retired or disabled worker (with entitlement not dependent on having a child beneficiary in his/her care), or a divorced spouse; (b) on entitlement at age 60-64 if the beneficiary is a widow, widower, or a surviving divorced spouse; or (c) on entitlement, in case of disability, at ages 50-59 if the beneficiary is a widow, widower, or surviving divorced spouse.

At the time of award, the following reductions in benefit amount are made for:

A retired-worker beneficiary--\5/9\ of 1 percent for each month of entitlement before age 65 (maximum reduction of 20 percent);

A wife or husband beneficiary--\25/36\ of 1 percent for each month of entitlement before age 65 (maximum reduction of 25 percent);

A widow(er) including surviving divorced spouse--\19/40\ of 1 percent for each month of entitlement between age 60 (maximum reduction of 28.5 percent) and age 65.

Disabled widow(er)s ages 50 to 59 receive 71.5 percent of the PIA.

The benefit continues to be paid at a reduced rate even after age 65, except that the reduced rate is refigured at age 65 for all beneficiaries and also at age 62 for a widow, widower, and a surviving divorced spouse to omit months for which the reduced benefits were not paid. Data on benefits paid to new retired workers in 1993 indicates that 72 percent of all such benefits were actuarially reduced (70 percent for men, 75 percent for women). Table 1-8 presents information on the number of workers retiring in a given year who file for actuarially reduced benefits.

TABLE 1-8.--NUMBER OF SOCIAL SECURITY RETIRED-WORKER NEW BENEFIT AWARDS AND PERCENT RECEIVING REDUCED BENEFITS BECAUSE OF ENTITLEMENT BEFORE AGE 65, AS OF DECEMBER OF GIVEN YEAR

[Number in millions]

Year\1\	Total Number	Total Percent	Men Number	Men Percent	Women Number	Women Percent
1956	0.9	12	0.6	(2)	0.4	31
1960	1.0	21	.6	(2)	.4	60
1965	1.2	49	.7	43	.4	60
1970	1.3	63	.8	57	.5	72
1975	1.5	73	.9	69	.6	79
1980	1.6	76	.9	73	.7	80
1985	1.7	74	1.0	70	.7	79
1986	1.7	74	1.0	71	.7	79
1987	1.7	74	1.0	71	.7	79
1988	1.6	74	.9	70	.7	78
1989	1.7	73	1.0	69	.7	78
1990	1.7	74	1.0	71	.7	78
1991	1.7	72	1.0	69	.7	76
1992	1.7	72	1.0	69	.7	76
1993	1.7	72	1.0	70	.7	75

\1\Data for 1985-90 based on a 1-percent sample; data for earlier years and for 1991-93 based on 100 percent.
\2\Reduced benefits were not available to men until 1961. They were not available to women until 1956.

Source: Office of Research and Statistics, Social Security Administration.

Delayed retirement credit (DRC). A credit for delayed retirement is due a worker for each month the worker: (1) was fully insured, (2) had attained normal retirement age (currently, age 65) but was not yet age 70, and (3) did not receive benefits because the worker had not filed an application or was working. Each monthly credit serves as a basis for increasing the monthly benefit (unless the benefit is based on a special minimum PIA) by \1/12\ of 1 percent for workers who attained age 62 before 1979 and by \1/4\ of 1 percent for workers attaining age 62 from 1979 through 1986. The increase is applicable to the worker's monthly benefits amount but not to the PIA. Hence, auxiliary benefits are generally not affected. The exception is that a surviving spouse (including divorced) receiving widow(er)'s benefits is entitled, for months after May 1978, to the same increase that had been applied to the benefit of the deceased worker or for which the worker was eligible for at the time of death.

As a result of the Social Security Amendments of 1983, beginning with workers who attain age 65 in 1990 (i.e., age 62 in 1987) the increment for delaying retirement past the normal retirement age will increase by \1/2\ of 1 percent every second year until reaching 8 percent per year of delayed retirement for workers attaining age 65 after 2007. (See Table 1-5.)

Maximum family benefit. The maximum monthly amount that can be paid on a worker's earnings record varies with the PIA. For benefits payable on the earnings records of retired and deceased workers, the maximum varies between 150 and 188 percent of the PIA. No more than the established maximum can be paid to a family regardless of the number of beneficiaries entitled on that earnings record. The family maximum is computed by adding fixed percentages of dollar amounts which are part of the PIA. For the family of a worker who becomes age 62 or dies in 1994, the total amount of benefits payable to them will be limited to:

150 percent of the first $539 of PIA, plus;
272 percent of PIA from $539 through $779, plus;
134 percent of PIA from $779 through $1,016, plus;
175 percent of PIA over $1,016.

The dollar amounts in this benefit formula (i.e. the ``bend points'') are adjusted annually by the same index used to update the bend points in the primary benefit formula.

Whenever the total of the individual monthly benefits payable to all the beneficiaries entitled on one earnings record exceeds the maximum, each dependent's or survivor's benefit is proportionately reduced to bring the total within the maximum.

In computing the total of the individual monthly benefits for entitlements based on a single earnings record, a benefit payable to a divorced spouse or to a surviving divorced spouse is not included.

Retirement test. The retirement test is a provision in the law that reduces benefits for nondisabled recipients who earn income from work above a certain amount.

The test has been modified many times over the years. In 1994, the law provides that beneficiaries under age 65 may earn $8,040 a year in wages or self-employment income without their benefits being affected. Beneficiaries age 65-69 can earn $11,160 a year. For beneficiaries under age 65 who have earnings in excess of these amounts, $1 of benefits is lost for each $2 of earnings. For beneficiaries age 65-69, the reduction rate is $1 of benefits lost for every $3 of earnings in excess of the exempt amount. The exempt amounts are adjusted each year to rise in proportion to average wages in the economy. The test does not apply to beneficiaries age 70 and over (they receive full benefits regardless of the level of their earnings). In the first year of entitlement--and last year for dependent beneficiaries--the so-called ``grace year''--a monthly test of earnings also applies, if it is more advantageous than the annual test of earnings. Under the monthly test, a beneficiary may receive benefits for any month in which his or her earnings do not exceed one-twelfth of the annual exempt amount regardless of annual earnings. However, under this monthly test, if earnings in a month exceed one-twelfth of the annual exempt amount, no benefit is paid for that month. The monthly test is used only when it is more beneficial to the individual.

For the self-employed, benefits are paid for any month in

which
the individual does not perform ``substantial services'' in his
or her trade or business.

Retired workers whose benefits are not paid due to the retirement test for one or more months are compensated through
future increases in their benefit amount. For workers under age
65, their actuarial reduction factor is reduced. Beneficiaries
age 65-69 get a DRC for each month benefits were not paid.
Examples:

1. John--Age 63 with $4,000 in annual benefits before the retirement test is applied:

Earnings in 1994	$9,040
Exempt amount for under age 65	8,040

Excess over exempt amount	1,000
Benefit reduction=50 percent of excess	500
Benefits John will receive in 1994	3,500

2. Ida--Age 67 with $4,000 in annual benefits before the retirement test is applied:

Earnings in 1994	11,760
Exempt amount for 65 and older	11,160

Excess over exempt amount	600
Benefit reduction=33\1/3\ percent of excess	200

Benefits Ida will receive in 1994.................. 3,800

The test does not apply to pensions, rents, dividends, interest, and other types of ``unearned'' income. These forms of income were exempted in order to encourage savings for retirement as supplements to Social Security.

History of the retirement test. The retirement test was part of the original plan that led to Social Security. The 1935 report of the Committee on Economic Security appointed by President Franklin D. Roosevelt recommended that no benefits be paid before a person had ``retired from gainful employment.'' Initially, the Social Security Act provided that benefits would not be paid for any month in which the individual had received ``wages with respect to regular employment.'' Before any benefits were payable under the program, Congress modified this provision in the Social Security Amendments of 1939. No benefits would be paid for any month in which wages from covered employment were $15 or more. This arrangement prevailed until 1950.

The 1950 amendments extended Social Security coverage to the bulk of nonfarm self-employed workers. It was claimed that many self-employed people never retired and therefore would never receive benefits. As a result, the 1950 act exempted persons age 75 and over from the test. In addition, in the first of many actions to increase the amount of earnings permitted, allowable monthly income from wages was increased from $14.99 to $50.

Over the years, the earnings limits, the age limits, and the formulae for reducing benefits have been changed many times. Starting with the 1954 amendments, benefits were no longer totally withheld if the retiree had earnings above the exempt amount. Instead, a reduced benefit was payable. In addition, the 1954 act exempted persons age 72 and over from the test.

The 1972 amendments reduced benefits by $1 for every $2 of earnings above the exempt amount. The 1972 amendments also provided that, beginning in 1975, the exempt amounts would be ``indexed'' to rise at the same rate as wage growth. To compensate workers who did not receive benefits between ages 65 and 72, including those who did not because of the retirement test, the amendments established the delayed retirement credit.

In the consideration of major Social Security legislation in 1977, there was considerable pressure to eliminate the retirement test for persons over age 65. As a compromise, the limit on earnings was raised for persons age 65 and older, and since then two different exempt amounts have applied for those under age 65 and those age 65-69. The 1977 amendments also lowered from 72 to 70 the age at which the test would no longer apply, to be effective in 1982 (subsequent legislation postponed the effective date to 1983). In response to criticism that it discriminated in favor of workers who had substantial but irregular employment (e.g., teachers), Congress also eliminated the monthly test except for the first year of retirement. In 1980, Congress extended the monthly test to the year a dependent beneficiary became ineligible for benefits.

TABLE 1-9.--RETIREMENT TEST EXEMPT AMOUNTS

Year	Under age 65	Age 65 and over\2\
1975	$2,520	$2,520
1976	2,760	2,760
1977	3,000	3,000
1978	3,240	4,000
1979	3,480	4,500
1980	3,720	5,000
1981	4,080	5,500
1982	4,440	6,000
1983	4,920	6,600
1984	5,160	6,960
1985	5,400	7,320
1986	5,760	7,800
1987		

6,000   8,160
1988...
6,120   8,400
1989...
6,480   8,880
1990...
6,840   9,360
1991...
7,080   9,720
1992...
7,440   10,200
1993...
7,680   10,560
1994...
8,040   11,160
1995...
\1\8,280 \1\11,400
1996...
\1\8,520 \1\11,760
1997...
\1\8,880 \1\12,240
1998...
\1\9,240 \1\12,720
1999...
\1\9,600 \1\13,320

\1\Based on economic assumptions in the President's FY 1995 Budget.
\2\In 1955-82, retirement earnings test did not apply at ages 72 and
  over; beginning in 1983, it does not apply at ages 70 and over.

Source: Office of the Actuary, Social Security Administration.

As part of major legislation restoring financial integrity
to Social Security in 1983, Congress made two

liberalizations affecting persons who continue to work after attaining retirement age. The first provided that beginning in 1990 beneficiaries who have attained the normal retirement age will lose only $1 in benefits for each $3 in earnings above the exempt amount. The second increased the delayed retirement credit (DRC). Prior to the increase, the DRC was equal to \1/4\ of 1 percent for each month (3 percent a year) beyond the normal retirement age that a person did not receive benefits. Under the 1983 provision, the DRC will increase gradually to \2/3\ percent a month over the period 1990 to 2009 (8 percent a year).

As a result of a legislative change in the Deficit Reduction Act of 1984, the Social Security Administration requests earlier reports of earnings from beneficiaries who are most likely to have earnings in excess of the exempt amount. These beneficiaries may thus have their benefits ceased in the actual year of excess earnings, rather than receiving overpayments which must then be recouped later.

Work effort and the retirement test. The Congressional Budget Office, in its May 23, 1991 testimony before the Committee on Ways and Means Subcommittee on Social Security, made the following comments regarding the work-response of seniors to the retirement test:

> Eliminating the earnings test would increase work effort among some people aged 65 through 69, but the overall impact would be small. This conclusion is based on three considerations. First, the earnings test is

only one of many factors that determine work effort.

Among other factors likely to influence a worker's decision to retire are the level of Social Security and private pension benefits that would be received, the employment of a spouse, the availability of suitable work, and the health of the worker.

Second, the empirical research that is available provides little support for the notion that older workers would increase their work effort significantly.

. . . A widely cited study . . . found no evidence that liberalizing the earnings test in the 1970's precipitated large-scale reentry into the labor force.

. . . [Another study that examined workers age 62 through 69 projected that] workers whose earnings are already above the limit might increase their hours by as much as 20 percent if the test were eliminated, but noted that such workers account for a very small share of this age group. In addition, workers whose earnings are high enough that they lose all of their Social Security benefits under the current earnings test might reduce their work effort in response to the increase in their total incomes from eliminating the test.

Finally, it is noteworthy that more than half of all workers begin collecting benefits as soon as they become eligible at age 62, even though they will receive reduced benefits throughout their retirement. A sizeable number of older workers clearly prefer retirement to continued employment, even though the 20 percent higher benefits they could obtain by delaying retirement until age 65 would compensate them for receiving three fewer years of benefits.

Impact of the retirement test. Social Security Administration actuaries estimate that, in 1992, some 7 million persons age 65-69 were entitled to Social Security retired-worker benefits. Of these, 90 percent were unaffected by the earnings test: 73 percent had no earnings at all, and 17 percent had earnings under the exempt amount. Only 10 percent of those age 65-69 had earnings in excess of the retirement test exempt amount.

Those who are affected by the retirement test, and who would therefore gain from its elimination, are generally better off economically than the rest of the population aged 65 through 69. Research by the Congressional Budget Office shows that almost half of individuals age 65-69 with family incomes of $50,000 or more in 1989 were affected by the retirement test. By contrast, of those with no earnings or earnings below the threshold, more than half had incomes below $25,000. Table 1-10 shows the distribution by family income of those affected by the retirement test.

The Social Security Administration estimates the net cost of repealing the retirement test for individuals age 65 through 69 at more than $5 billion per year, or $22.9 billion for fiscal years 1995-99. Social Security Administration actuaries estimate that only 10 percent of the cost of these benefits would be offset by additional taxes paid and administrative savings.

Chart 1-1 shows the distribution of additional benefits among earner families if the retirement test were repealed. Half of the additional $27.4 billion in benefits--nearly $14 billion--would go to those with family incomes above $63,500 in 1992. Only 5 percent of the additional benefits would go to those with family incomes below $28,000.

CHART 1-1. DISTRIBUTION OF ADDITIONAL BENEFITS UNDER ELIMINATION OF THE RETIREMENT EARNINGS TEST, 1992

[In percent]

<CHART 1-1>

TABLE 1-10.--DISTRIBUTION IN 1989 OF PEOPLE AGED 65-69 ELIGIBLE TO RECEIVE SOCIAL SECURITY BENEFITS, BY FAMILY INCOME AND EARNINGS

[In percent]

Annual family income	Entire group	With no earnings	Earnings under limit	Earnings over limit
Under $15,000..................	32	37	31	3
$15,000 to $24,999.............	23	24	27	13

$25,000 to $31,999.............	12	12	12	11
$32,000 to $49,999.............	17	15	18	29
$50,000 and over................	16	12	12	45
All incomes...............	100	100	100	100

Notes.--Details may not add to totals because of rounding. Income is distinct from earnings: earnings are wages, salaries, and income from self-employment, and are only part of total income. Excludes new retirees.

Source: Congressional Budget Office tabulations of data from March 1990 Current Population Survey.

Withholding. This is the suspension of benefit payments until the conditions causing deductions are known to have ended. Reasons for withholding benefits include: (1) earnings by a beneficiary (or any dependent drawing benefits on his earnings record) under age 70 from either covered or noncovered employment which exceeds the annual allowable amount (the retirement test); (2) failure of a spouse under age 62 or mother or father beneficiary to have an entitled child in her care; (3) for special age-72 beneficiaries, receipt of public assistance or supplemental security income (SSI) payments or government pensions; (4) the payee is not determined; and (5) administrative reasons.

Some of the administrative reasons for withholding benefits are: (a) refusal of beneficiary to accept checks for personal reasons; (b) beneficiary's residence in certain foreign countries; and (c) under certain conditions, an alien beneficiary's residence outside the United States for more than 6 full consecutive calendar months.

Suspension of monthly benefit payments does not affect eligibility for hospital insurance benefits under Medicare (although Medicare is generally not available for treatment outside the United States).

BENEFITS FOR RECIPIENTS OF PENSIONS FROM NONCOVERED EMPLOYMENT

The public pension offset. Social Security benefits payable to spouses of retired, disabled, or deceased workers are generally reduced to take account of any public pension the spouse receives as a result of work in a government job (Federal, State, or local) not covered by Social Security. The amount of the reduction is equal to two-thirds of the government pension. The offset does not apply to workers whose government job is covered by Social Security on the last day of the person's employment.

Generally, Federal workers hired before 1984 are part of the Civil Service Retirement System (CSRS) and are not covered by Social Security. Federal workers hired after 1983 are covered by the Federal Employee's Retirement System Act of 1986 (FERS), which includes coverage by Social Security. The FERS law provided employees covered by the CSRS the opportunity from July 1, 1987, to December 31, 1987, to make a one-time election to join FERS and thereby obtain Social Security coverage. Thus, a CSRS employee who switched to FERS during this period immediately became exempt from the government pension offset.\4\ Federal workers who subsequently joined FERS need to have 5 years of coverage under FERS after December 31, 1987, to be exempt from the offset.

\4\This period was extended administratively to June 30, 1988.

The ``windfall'' benefit. Under the so-called ``windfall'' benefit provision of the Social Security Amendments of 1983, Social Security benefits are generally reduced for workers who also have pensions from work that was not covered by Social Security (e.g., work under the Federal Civil Service Retirement System). Under the regular, weighted benefit formula, benefits are determined by applying a percentage to average indexed monthly earnings. For workers eligible in 1994, benefits equal 90 percent of the first $422 of average indexed monthly earnings, 32 percent of earnings from $422 to $2,545, and 15 percent of earnings above $2,545. The formula applicable to those with pensions from noncovered employment substitutes 40 percent for the 90 percent factor in the first bracket. (The second and third factors remain the same.) The resulting reduction in the worker's Social Security benefit is limited to one-half the amount of the noncovered pension. The new law was phased in over a 5-year period and affects those first eligible for both Social Security benefits and noncovered pensions after 1985.

Workers who have 30 years or more of substantial Social Security coverage are fully exempt from this treatment. For workers who have 21-29 years of coverage, the percentage in the first bracket in the formula increases by 5 percentage points for each year over 20, as shown in the table below:

TABLE 1-11.--WINDFALL BENEFIT FORMULA FACTORS

Years of Social Security coverage	First factor in formula (percent)
20 or fewer	40
21	45
22	50
23	55
24	

......	60
25......	65
26......	70
27......	75
28......	80
29......	85
30 or more......	90

AUTOMATIC BENEFIT ADJUSTMENTS

Benefit increases for Social Security and SSI recipients are based on increases in the cost of living as measured by the Bureau of Labor Statistics' Consumer Price Index (CPI). The CPI used for this purpose is the CPI for Urban Wage Earners and Clerical Workers (CPI-W). As a result of a provision contained in the Omnibus Budget Reconciliation Act of 1986, it is no longer necessary for the rise in the CPI to exceed 3 percent in order to trigger the annual cost-of-living adjustment (COLA). A COLA will now be provided in any year in which there is a measurable (0.1 percent) increase in consumer prices. If there was a year of price deflation and no COLA was provided, then a 2-year change in the CPI of at least 0.1 percent would be needed before a COLA is provided.

Prior to 1984, the change in the CPI was measured from the first calendar quarter of the base year to the first calendar quarter of the current year. The benefit increases in 1984 and later years are based on the CPI increase from the third quarter of the base year through the third quarter of the year in which the benefit increase becomes effective. In addition, benefit increases beginning with the January 1986 check are based upon a price index in which the housing component is measured on a rental equivalence basis.

If the assets of the combined OASI and DI trust funds represent less than a 20 percent reserve ratio and wages increase at a rate lower than inflation, the automatic benefit increase will be based on wage growth rather than inflation.

The Secretary of Health and Human Services (HHS) is required by law to publish the amount of the increase in the Federal Register within 45 days after the close of the measuring period. The benefit increase is effective in December and first appears in benefit checks received in January, i.e., 3 months after the close of the measuring period. (Prior to 1983 the benefit adjustment was effective in June and payable in July.)

For example, since a benefit increase was effective in 1992, that year became the base for the 1993 benefit increase. The CPI for the third quarter of 1992 was 138.8. This was the arithmetical average of the CPI for July, August and September 1992.

Month in 1992:

CPI-W

July...
... 138.4

August...
... 138.8

September..
... 139.1

______

Total..
. 416.3

The average CPI-W for the 3rd quarter of 1992 is thus:

416.3/3=138.8 (rounded to the nearest 0.1)

The CPI for the third quarter of 1993 was 142.4. This was
the arithmetical average of the CPI for July, August and September 1993.

Month in 1993:
CPI-W

July...
... 142.1

August...
... 142.4

September..
... 142.6

______

Total..
. 427.1

The average CPI-W for the third quarter of 1993 is thus:

$$427.1/3=142.4 \text{ (rounded to the nearest 0.1)}$$

The percentage increase in the CPI from the third quarter of 1992 to the third quarter of 1993 is:

$$(142.4-138.8)/138.8=2.6$$

Thus, the benefit increase for December 1993 was 2.6 percent (and was reflected in the January 1994 checks).

The benefit increase is always rounded to the nearest 0.1 percent. It applies to all types of beneficiaries.

TABLE 1-12.--HISTORICAL COMPARISON OF AVERAGE WAGE INCREASES TO BENEFIT INCREASES AND CHANGES IN CPI, 1965-93

[In percent]

Calendar year	Increase in wages\1\: Cumulative from each year to 1993	Increase in wages\1\: Over prior year	Increase in CPI\2\: Cumulative from each year to 1993	Increase in CPI\2\: Over prior year	Increase in: Cumulative from each year to 1993	Increase in: Over prior year

1965	1.8	405.1	1.6	348.3	7.0	442.8
1966	6.0	376.5	3.2	334.6	0.0	442.8
1967	5.6	351.4	2.8	322.9	0.0	442.8
1968	6.9	322.3	4.2	306.0	13.0	380.4
1969	5.8	299.3	5.4	285.1	0.0	380.4
1970	5.0	280.4	5.7	264.4	15.0	317.7
1971	5.0	262.2	4.4	249.1	10.0	279.7
1972	9.8	229.9	3.4	237.5	20.0	216.4
1973	6.3	210.4	6.2	217.9	0.0	216.4
1974	5.9	193.0	11.0	186.5	11.0	185.1
1975	7.5	172.6	9.1	162.7	8.0	164.0
1976	6.9	155.1	5.7	148.4	6.4	148.1
1977	6.0	140.6	6.5	133.3	5.9	134.3
1978	7.9	122.9	7.7	116.6	6.5	120.0
1979	8.7	105.0	11.4	94.4	9.9	100.2
1980	9.0	88.1	13.4	71.4	14.3	75.1
1981	10.1	70.9	10.3	55.5	11.2	57.5
1982	5.5	61.9	6.0	46.6	7.4	46.6
1983	4.9	54.4	3.0	42.4	\4\3.5	41.7

1984	5.9	45.8	3.5	37.6	3.5	36.9
1985	4.3	39.9	3.5	32.9	3.1	32.8
1986	3.0	35.9	1.6	30.8	1.3	31.1
1987	6.4	27.7	3.6	26.3	4.2	25.8
1988	4.9	21.7	4.0	21.5	4.0	20.9
1989	4.0	17.1	4.8	15.9	4.7	15.5
1990	4.6	11.9	5.2	10.2	5.4	9.6
1991	3.7	7.9	4.1	5.8	3.7	5.7
1992	5.2	2.6	2.9	2.8	3.0	2.6
1993	\5\2.6	....	2.8	....	\6\2.6	....

\1\Average annual wages used to index earnings records.
\2\Increase in annual average CPI-W.
\3\Legislated benefit increases through 1975 and increases based on CPI thereafter. After 1975, the CPI and benefit increases are different because they reflect the change in prices measured over different periods of time.
\4\As a result of the Social Security Amendments of 1983, COLA's are provided on a calendar year basis, with the benefit increase payable in January rather than July. The July 1983 COLA was delayed to January 1984. This delay and a change in the computation period led to 6 months of 1983 (first quarter-third quarter) not being accounted for in any COLA increase--a period during which the CPI increased 2.4 percent.
\5\Preliminary.

\6\Effective December 1993, payable January 3, 1994.

Source: Office of the Actuary, Social Security Administration.

TAXATION OF SOCIAL SECURITY (OASDI) BENEFITS FOR HIGHER INCOME PERSONS

Beneficiaries with income above certain thresholds are required to include a portion of their Social Security benefits (and railroad retirement tier 1 benefits) in their taxable income. The Social Security Act Amendments of 1983 required beneficiaries with incomes of more than $25,000 if single and $32,000 if married to include up to 50 percent of their benefits in taxable income, beginning in 1984. The Omnibus Budget Reconciliation Act of 1993 required beneficiaries with incomes of more than $34,000 if single and $44,000 if married to include up to 85 percent of their benefits in their taxable income, beginning in 1994. For these purposes, ``income'' is defined as Adjusted Gross Income plus tax-exempt bond interest plus one-half of Social Security benefits.

The following worksheet shows the steps involved in determining how much of a beneficiary's Social Security benefits are taxable. The examples which follow illustrate the results of applying this worksheet.

WORKSHEET FOR DETERMINING THE TAXABLE PORTION OF SOCIAL SECURITY BENEFITS

1. Enter yearly Social Security benefits................________________
2. Divide line 1 by

2.................................________________
3. Enter Adjusted Gross Income plus tax-free
interest...________________
4. Add line 2 and line
3..............................________________
5. Enter: $25,000 if single or head of household;
    $32,000 if married filing jointly; $0 if married
    filing
separately...................................______________
__
6. Subtract line 5 from line
4.........................________________
    (If result on line 6 is zero or a negative number,
      stop; no benefits are taxable.)
7. Divide line 6 by
2.................................________________
8. Enter smaller of amounts on line 2 or line
7........________________
9. Enter amount on line
4.............................________________
10. Enter: $34,000 if single or head of household;
    $44,000 if married filing jointly; $0 if married
    filing
separately...................................______________
__
11. Subtract line 10 from line
9.......................________________
    (If result on line 11 is zero or a negative number,
      stop; amount on line 8 is amount of benefits
      taxable.)
12. Multiply line 11 by
0.85..........................________________
13. Enter smallest of: amount on line 8; $4,500 if
    single or head of household; $6,000 if married
    filing jointly; $0 if married filing
separately.....________________
14. Add amounts on line 12 and line
13.................________________
15. Multiply line 1 by
0.85...........................________________
16. Enter smaller of amounts on line 14 or line

15......________________

(Amount on line 16 is total amount of benefits taxable.)

Source: Congressional Research Service.

Examples:

	Single	Single	Married	Married	Married
Total income (including Social Security)	$27,000	$35,000	$38,000	$50,000	$80,000
Social Security benefits	12,000	7,000	12,000	12,000	18,000
Amount of benefits taxable	0	3,250	0	6,000	15,300
Percent of benefits taxable	0	46	0	50	85
Income tax liability on all benefits taxable	0	559	0	900	4,284

The proceeds from the taxation of Social Security benefits under the 1983 law are credited to the OASDI trust funds, except that the additional taxes resulting from the OBRA 1993 provision are credited to the HI trust fund.

For calendar year 1995, CBO projects that 23 percent of Social Security beneficiaries will be affected by the taxation of benefits (see table 1-14).

TABLE 1-13.--TAXATION OF SOCIAL SECURITY BENEFITS; TAX AMOUNTS BY TRUST FUNDS CREDITED AND AS A PERCENT OF TOTAL OASDI BENEFIT PAYMENTS

[Dollars in millions]

Fiscal year	Total OASDI benefits	Taxes credited to trust funds from the taxation of OASDI benefits: OASDI	HI	Total	Taxes credited to trust funds as percent of OASDI benefits: OASDI	HI	Total
Past experience:							
1984	$173,603	$2,275	....	$2,275	1.3	....	1.3
1985	183,959	3,368	....	3,368	1.8	....	1.8
1986	193,869	3,558	....	3,558	1.8	....	1.8
1987	202,430	3,307	....	3,307	1.6	....	1.6
1988	213,907	3,390	....	3,390	1.6	....	1.6
1989	227,150	3,772	....	3,772	1.7	....	1.7
1990	243,275	3,081	....	3,081	1.3	....	1.3
1991	263,104	5,921	....	5,921	2.3	....	2.3
1992	281,650	6,237	....	6,237	2.2	....	2.2
1993	298,176	6,161	....	6,161	2.1	....	2.1
Projected:\1\							
1994	313,842	5,695	$1,642	7,337	1.8	0.5	2.3
1995	330,583						

		6,610	4,219	10,828	2.0	1.3	3.3
1996	348,429	7,007	4,488	11,496	2.0	1.3	3.3
1997	367,470	7,429	4,752	12,181	2.0	1.3	3.3
1998	387,465	7,900	5,030	12,930	2.0	1.3	3.3
1999	408,632	8,402	5,312	13,714	2.1	1.3	3.4

\1\Based on economic assumptions in the President's FY 1995 budget.

Note.--Tax amounts, as shown above for past years, are the amounts collected through the Federal income tax system (including adjustments for actual experience in prior years) plus taxes withheld from the OASDI benefits of certain nonresident aliens.

Source: Office of the Actuary, Social Security Administration.

TABLE 1-14.--EFFECT OF TAXING SOCIAL SECURITY BENEFITS BY INCOME CLASS, 1995

[Numbers of persons in thousands; dollars in millions]

Persons age 65 and over All recipients
Aggregate

amount of Aggregate Taxes as
Level of individual or couple Number
Percent Number of Social Number Percent
Social amount of percent
income\1\ Number affected by

affected by Security affected by affected by
Security taxes on of
taxation\2\
taxation\2\ beneficiaries\3\ taxation\3\ taxation\3\
benefits benefits benefits

Less than $10,000.................	6,480	0	0.0	8,430	0	0.0	46,605	0	0.0
$10,000 to $15,000................	4,522	0	0.0	5,398	0	0.0	42,991	0	0.0
$15,000 to $20,000................	3,746	0	0.0	4,472	0	0.0	36,802	0	0.0
$20,000 to $25,000................	3,258	0	0.0	3,743	0	0.0	31,701	0	0.0
$25,000 to $30,000................	2,833	98	3.5	3,309	135	4.1	28,486	13	0.0
$30,000 to $40,000................	4,138	1,048	25.3	4,895	1,316	26.9	42,489	386	0.9
$40,000 to $50,000................	2,417	1,908	78.9	2,825	2,394	84.7	24,557	1,084	4.4
$50,000 to $60,000................	1,376	1,238	90.0	1,584	1,559	98.5	14,337	1,441	10.0
$60,000 to $75,000................	1,238	1,112	89.8	1,391	1,378	99.1	12,976	2,081	16.0
$75,000 to $100,000...............	1,036	926	89.4	1,042	1,039	99.7	9,618	2,194	22.8
$100,000 to $200,000..............	886	793	89.5	867	865	99.8	8,015	1,985	24.8

At least $200,000................	337	259	76.7	270	266	98.5	2,659	811	30.5
All..............................	32,268	7,383	22.9	38,228	8,952	23.4	301,235	9,994	3.3

\1\Cash income (based on income of tax filing unit), plus capital gains realizations.

\2\Some elderly individuals do not receive Social Security benefits and are thus not affected by taxation of benefits.

\3\Includes beneficiaries under and over age 65.

Note.--Aggregate benefits and revenues are understated by about 10 percent because of benefits paid abroad, deaths of recipients before March interview, and exclusion of institutionalized beneficiaries. The number of beneficiaries is also understated.

Source: Congressional Budget Office simulations based on data from the Current Population Survey.

CHARACTERISTICS OF BENEFICIARY POPULATION

Table 1-15 provides detailed information on the numbers of various OASDI beneficiaries, the average amount of monthly benefits by type of beneficiary for new awards and for all beneficiaries currently receiving payments.

TABLE 1-15.--NUMBER OF PERSONS RECEIVING VARIOUS TYPES OF OASDI BENEFITS BY AGE, SEX, AND AVERAGE MONTHLY BENEFIT AMOUNTS, DECEMBER 1992

[Based on a 10-percent sample]

Beneficiaries	Number (thousands)	Percent of total beneficiaries	Average monthly benefit	Percentage of total benefits
Retired workers	25,746	62.0	$653	68.8
Retired men	13,474	32.5	735	40.5
Retired women	12,272	29.6	562	28.2
Disabled workers	3,473	8.4	626	8.9
Disabled men	2,221	5.4	696	6.3
Disabled women	1,252	3.0	501	2.6
Spouses of retired workers	3,115	7.5	337	4.3
Wives of retired workers	3,085	7.4	338	4.3
Wives with entitled children	83	.2	227	.1
Without entitled children 62 and over	3,003	7.2	341	4.2
Husbands of retired workers	29	.1	211	(\1\)
Spouses of disabled workers	272	.7	156	.2
Wives of disabled workers	264	.6	157	.2
Wives with entitled children	204	.5	137	.1
Without entitled children 62 and over				

	61	.1	224	.1
Husbands of disabled workers..............................	7	(\1\)	112	(\1\)
Children of (retired, deceased or disabled) workers........	3,400	8.4	325	4.5
Children of retired workers................................	432	1.1	285	.5
Minor children of retired workers (0-17)...............	238	.6	252	.3
Student children of retired workers (18 and 19)........	12	(\1\)	320	(\1\)
Disabled children of retired workers (18 and over).....	182	.4	326	.2
Children of deceased workers...............................	1,810	4.5	433	3.2
Minor children of deceased workers (0-17)..............	1,340	3.4	427	2.3
Student children of deceased workers (18 and 19).......	54	.1	503	1
Disabled children of deceased workers (18 and over)....	416	1.0	439	7
Children of disabled workers...............................	1,159	2.9	170	8
Minor children of disabled workers (0-17)..............	1,091	2.7	165	7
Student children of disabled workers (18 and 19).......	26	.1	264	(\1\)
Disabled children of disabled workers (18 and over)....	42	(\1\)	251	(\1\)
Widowed mothers and fathers................................	294	.7	437	5
Total widowed mothers..................................	278	.7	445	.5
Total widowed fathers..................................	16	(\1\)	294	(\1\)
Widows and widowers (nondisabled)..........................	5,056	12.5	608	12.6

Total widows (nondisabled)	5,021	12.4	609	12.5
Total widowers (nondisabled)	36	.1	444	.1
Widows and widowers (disabled)	132	.3	424	.2
Total widows (disabled)	129	.3	427	.2
Total widowers (disabled)	2	....	285	....
Parents total	5	(\1\)	538	(\1\)
Special age 72 (primary)	4	(\1\)	178	(\1\)
Total OASI beneficiaries	36,593	88.2	602	90.1
Total DI beneficiaries	4,903	11.8	492	9.9
Total OASDI beneficiaries	41,497	100.0	589	100.0

\1\Less than 0.1%.

Note.--Columns may not add due to rounding.

Source: Office of Research and Statistics, Social Security Administration.

TABLE 1-16.--1994 SUMMARY SOCIAL SECURITY INFORMATION

Tax rate:	
Employee and employer each	7.65 percent

(6.20 percent--OASDI,
1.45 percent--
HI).

Self-employed................. 15.30 percent
(12.40 percent--OASDI,
2.9 percent--
HI).

OASDI contribution and benefit base $60,600.

Limitation on earnings subject to HI tax was repealed, effective 1994.

Earnings required for a quarter of coverage. $620.

Earnings required for a year of coverage:

Under the special minimum provision\1\. $6,750.

Under the windfall elimination provision\2\. $11,250.

Retirement test exempt aearnings limits:

Age 65-69...................... $11,160 annual, $930 monthly.

Under age 65................... $8,040 annual, $670 monthly.

Bend points:

PIA

90 percent of first $422 of AIME, plus 32 percent of AIME over $422 through $2,545, plus 15 percent of AIME over $2,545.

Maximum Family Benefit

150 percent of first $539 plus 272 percent of PIA over $539 through $779, plus 134 percent of PIA over $779 through $1,016, plus 175

percent of PIA over $1,016.

Benefit examples for worker retiring in 1994 at age 65:

	January 1994 PIA	Replacement rate (percent)
Low earner\3\	$505.30	57.4
Average earner\4\	829.80	42.4
Maximum earner\5\	1,147.50	24.0

\1\Amount is 15 percent of the ``old-law'' base--the contribution and benefit base that would be in effect without passage of the 1977 amendments.

\2\Amount is 25 percent of the ``old-law'' base.

\3\Earnings equal to 45 percent of average wages.

\4\Average earnings level: 1992, $22,935.42; 1993 (est.) $23,532.

\5\Earnings equal to the maximum earnings taxable for OASDI program: 1992, $55,500; 1993, $57,600.

Source: Office of the Actuary, Social Security Administration.

TABLE 1-17.--MONTHLY BENEFIT AMOUNTS FOR SELECTED BENEFICIARY FAMILIES WITH FIRST ELIGIBILITY IN 1993, BY AVERAGE INDEXED MONTHLY EARNINGS FOR SELECTED WAGE LEVELS, EFFECTIVE DECEMBER 1993

Beneficiary family	Worker with yearly earnings equal to-- Federal minimum wage\1\	Average wage\2\	Maximum taxable earnings\3\
RETIRED WORKER FAMILIES\4\			
Average indexed monthly earnings....	$926.00	$1,820.00	$3,154.00
Primary insurance amount............	542.60	836.00	1,146,00
Maximum family benefit..............	833.80	1,525.90	2,004.80
Monthly benefit amount:			
Retired worker claiming benefits at age 62:\4\			
Worker alone..................	434.00	668.00	916.00
Worker with spouse claiming benefits at age 62\4\........	637.00	981.00	1,345.00
SURVIVOR FAMILIES\5\			
Average indexed monthly earnings....	861.00	1,824.00	

			4,256.00
Primary insurance amount	521.30	837.40	1,315.60
Maximum family benefit	781.90	1,527.70	2,301.60
Monthly benefit amount:			
Survivors of worker deceased at age 40:\5\			
1 surviving child	390.00	628.00	986.00
Widowed mother or father and 1 child	780.00	1,256.00	1,972.00
Widowed mother or father and 2 children	780.00	1,527.00	2,301.00
DISABLED WORKER FAMILIES\6\			
Average indexed monthly earnings	900.00	1,821.00	3,652.00
Primary insurance amount	534.00	836.40	1,222.60
Disability maximum family benefit\7\	784.80	1,254.60	1,833.90
Monthly benefit amount:			
Disabled worker age 50:\6\			
Worker alone	534.00	836.00	1,222.00
Worker, spouse, and 1 child	784.00	1,254.00	1,832.00

\1\Annual earnings are calculated by multiplying the Federal minimum hourly wage (currently $4.25) by 2,080 hours.

\2\Worker earned the national average wage in each year used in the computation of the benefit.

\3\Worker earned the maximum amount of wages that can be credited to a worker's Social Security record in all years used in the computation of the benefit.

\4\Assumes the worker began to work at age 22, retired at age 62 in 1993 with maximum reduction, and had no prior period of disability.

\5\Assumes the deceased worker began to work at age 22, died in 1993 at age 40, had no earnings in that year, and had no prior period of disability.

\6\Assumes the worker began to work at age 22, became disabled at age 50, and had no prior period of disability.

\7\The 1980 Amendments to the Social Security Act provide for different family maximum amount for disability cases. For disabled workers entitled after June 1980, the maximum is the smaller of (1) 85 percent of the worker's AIME (or 100 percent of the PIA, if larger) or (2) 150 percent of the PIA.

LEGISLATIVE CHANGES MADE IN THE 97TH CONGRESS

The 97th Congress made numerous changes in the OASDI program. The major changes were included in the Omnibus Budget Reconciliation Act of 1981 (Public Law 97-35). Table 1-18 lists these changes and contains Congressional Budget Office estimates of their budgetary impact made at that time.

TABLE 1-18.--CONGRESSIONAL BUDGET OFFICE ESTIMATES FOR LEGISLATIVE CHANGES MADE IN OASDI DURING 1981 (JANUARY 1982 ESTIMATES), FISCAL YEARS 1982-84

[In millions of dollars]

	Fiscal year--		
	1982	1983	1984
Elimination of minimum benefit for future beneficiaries............................	-81	-180	-210
Elimination of benefits for postsecondary students.................................	-567	-1,580	-2,033
Restrictions on payment of lump-sum death benefits.................................	-200	-210	-215
Modification of month of initial entitlement for certain workers and their dependents..............................	-190	-220	-240
Temporary extension of earnings limitation to include all persons aged less than 72.	-380	-120	0
Termination of mother's and father's benefits when youngest child attains age 16......................................	-30	-88	-496
Modification of rounding rules............	-79	-272	-314
Cost reimbursement for provision of earnings information.....................	-1	-2	-5
Revision of reimbursements for vocational rehabilitation services..................	-87	-86	-73
Modify worker's compensation offset to:			
(1) Apply offset to certain other public			

disability benefits-megacap; (2) apply offset to benefits of workers aged 62 to 64; and (3) begin offset in first month of dual benefit payment..................	-87	-122	-156
Extension of coverage to first 6 months of sick pay (revenue increase)..............	-534	-762	-828
Total OASDI...........................	-2,236	-3,642	-4,570

LEGISLATIVE CHANGES MADE IN THE 98TH CONGRESS

The 98th Congress made extensive changes in OASDI programs in the Social Security Amendments of 1983 (Public Law 98-21), enacted to restore the financial status of the Social Security trust funds. Table 1-19 outlines the estimated outlay and revenues effects of the 1983 amendments under the alternative II-B assumptions of the 1983 Trustees' report. At the time, it was estimated that in the period 1983 through 1989 the OASDI and HI trust funds would receive $166.2 billion and $33.6 billion in additional financing, respectively. Table 1-20 shows the estimated long-range effects of the 1983 amendments, under 1983 assumptions.

TABLE 1-19.--ESTIMATED AMOUNTS OF CHANGES IN OASDI RECEIPTS AND BENEFIT PAYMENTS RESULTING FROM THE 1983 SOCIAL SECURITY AMENDMENTS, CALENDAR YEAR 1983-89

[In billions of dollars]

Provision	Calendar year-- 1983	1984	1985	1986	1987	1988	1989	Total, 1983-89
Increase tax rate on covered wages and salaries......	.....	8.6	0.3	.....	.....	14.5	16.0	39.4
Increase tax rate on covered self-employment earnings	.....	1.1	3.1	3.0	3.2	3.7	4.4	18.5
Cover all Federal elected officials and political appointees..	.....	(\1\)	(\1\)	(\1\)	(\1\)	(\1\)	(\1\)	.1
Cover new Federal employees.........................	.....	.2	.7	1.2	1.8	2.4	3.1	9.3
Cover all nonprofit employees.......................	.....	1.3	1.5	1.8	2.1	2.6	3.0	12.4
Total for new coverage.......................	.....	1.5	2.2	3.0	3.9	5.0	6.1	21.8
Prohibit State and local government terminations.....	.....	.1	2.	.4	6.	8.	1.1	3.2
Accelerate collection of State and local								

taxes....... ..... .6 (\1\) (\1\) .1 .
1 .1 1.0
Modify general fund financing basis for non-
contributory military service credits...............
18.4 -.4 -.4 -.3 -.4 -.4 -.4 16.1
Provide reimbursements from general fund for
unnegotiated checks................................
1.3 .1 .1 .1 .1 .1 .1 1.6
Delay benefit increases 6 months....................
3.2 5.2 5.4 5.5 6.2 6.7 7.3 39.4
Continue benefits on
remarriage..................... ..... (\2\) (\2\)
(\2\) (\2\) (\2\) (\2\) -.1
Modify indexing of deferred survivors'
benefits...... .... (\2\) (\2\) (\2\) (\2\)
(\2\) (\2\)
Raised disabled widow(er)'s benefits to 71.5 percent
of
PIA....................................... .....
-.2 -.2 -.2 -.2 -.3 -.3 -1.4
Pay divorced spouses whether or not worker has

retired.. .....
..... (\2\) (\2\) (\2\) (\2\) (\2\) -.1
Eliminate ``windfall'' benefits for individuals
receiving pensions from noncovered
employment....... .... (\3\) (\3\)
(\3\) .1 .1
Offset spouses benefits by up to two-thirds of
noncovered Government pension (public pension
offset)..
(\2\) (\2\) (\2\) (\2\) (\2\) (\2\) (\2\) (\2\)
Expand use of death certificates to stop benefits....
(\3\) (\3\) (\3\) (\3\) (\3\) (\3\) (\3\) .1
Impose 5-year residency requirement for certain

aliens... .....
..... (\3\) (\3\) (\3\) (\3\) (\3\) .1
Tax one-half of benefits for high income

beneficiaries.................................. .....

2.6   3.2   3.9   4.7   5.6   6.7   26.6
All other changes....................................
(\2\) (\2\) (\2\) (\2\) (\2\) (\2\) (\2\)   -.1

      Total for all changes..........................
22.8   19.2   13.9   15.3   18.0   35.8   41.2   166.2

\1\New additional taxes of less than $50 million.
\2\Additional benefits of less than $50 million.
\3\Reduction in benefits of less than $50 million.

Note.--Based on 1983 alternative II-B assumptions. Estimates shown for each provision include the effects of interaction with all preceding provisions. Totals do not always equal the sum of components due to rounding. Positive figures represent additional income or reduction in benefits. Negative figures reductions in income or increases in benefits.

Source: Office of the Actuary, Social Security Administration, 1983.

TABLE 1-20.--ESTIMATED LONG-RANGE OASDI COST EFFECTS OF THE SOCIAL SECURITY AMENDMENTS OF 1983

Provision	Effect as percent of payroll: OASI	DI	OASDI
Present law prior to amendments:			

Average cost rate	13.04	1.34	14.38
Average tax rate	10.13	2.17	12.29
Actuarial balance	-2.92	+.83	-2.09
Changes included in titles I and III of the amendments:\1\			
Cover new Federal employees	+.26	+.02	+.28
Cover all nonprofit employees	+.09	+.01	+.10
Prohibit State and local terminations	+.06	+.00	+.06
Delay benefit increases 6 months	+.28	+.03	+.30
Eliminate ``windfall'' benefits	+.04	+.00	+.04
Raise delayed retirement credits	-.10	....	-.10
Tax one-half of benefits	+.56	+.05	+.61
Accelerate tax rate increase	+.03	....	+.03
Increase tax rate on self-employment	+.17	+.02	+.19
Adjust self-employment income	-.02	-.00	-.03
Change DI rate allocation	+.81	-.81	....
Continue benefits on remarriage	-.00	-.00	-.00
Pay divorced spouse of nonretired	-.01	-.00	-.01
Modify indexing of survivor's benefits	-.05	....	-.05
Raise disabled widow's benefits	-.01	....	-.01
Modify military credits financing	+.01	+.00	+.01
Credit unnegotiated checks	+.00		

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+.00      +.00
  Tax certain salary reduction plans......      +.03
+.00      +.03
  Modify public pension offset............      -.00
-.00      -.00
  Suspend auxiliary benefits for certain
   aliens.................................      +.00
+.00      +.00
  Modify earnings test for those aged 65
   and over\2\............................      -.
01  .......      -.01
All other provisions of titles I and III..      -.00
-.00      -.00
Subtotal for the effect of the above
 provisions\3\............................     +2.07
-.68     +1.38
Remaining deficit after the above
 provisions...............................      -.85
+.15      -.71
Additional change relating to long-term
 financing (title II):\4\ Raise normal
 retirement age to 67.....................      +.83
-.12      +.71
Total effect of all of the provisions\5\..     +2.89
-.80     +2.09
After the amendments:
  Actuarial balance.......................      -.03
+.03      -.00
  Average income rate.....................     11.47
1.42     12.89
  Average cost rate.......................     11.50
1.39     12.89
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\1\The values of each of the individual provisions listed
from title I
  and title III represent the effect over present law and
do not take
  into account interaction with other provisions with the
exception of
  the provision relating to the earnings test.
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\2\Estimates from modifying the earnings test take into account interaction with the provision raising delayed retirement credits.

\3\The values in the subtotal for all provisions included in title I and title III take into account the estimated interactions among these provisions.

\4\The values for each of the provisions of title II take into account interaction with the provisions included in title I and title III.

\5\The values for the total effect of the amendments take into account interactions among all of the provisions.

Source: Social Security Bulletin, July 1983. The above estimates are based on preliminary 1983 Trustees' Report Alternative II-B assumptions. Individual estimates may not add to totals due to rounding and/or interaction among proposals.

LEGISLATIVE CHANGES MADE IN THE 99TH CONGRESS

Several legislative changes were made in the Social Security program in the 99th Congress. The Consolidated Omnibus Reconciliation Act of 1985 (Public Law 99-272) included a variety of minor and technical legislative changes in Social Security. Additionally, Public Law 99-272 contained provisions to: (a) exempt wages paid to retired Federal judges, performing active duty, for purposes of FICA taxation and the Social Security earnings limitation; and (b) to protect certain Social Security beneficiaries who receive overpayments through the electronic direct deposit system.

The Omnibus Budget Reconciliation Act of 1986 (Public Law 99-509) included two significant Social Security provisions. The first eliminated the requirement that the annual rise in the Consumer Price Index must exceed 3 percent in order for a cost-of-living adjustment to be paid to Social Security beneficiaries. The new law required that a cost-of-living adjustment be paid in any year in which there was a measurable increase in consumer inflation. Second, Public Law 99-509 removed from the States the responsibility for collecting and depositing with the Federal Government Social Security contributions on behalf of their political subdivisions. All State and local entities now deposit their Social Security contributions directly to the Federal Government on a time schedule that parallels the treatment of private employers.

The Emergency Deficit Reduction and Balanced Budget Act of 1985 (Public Law 99-177) contained a provision to remove the receipts and disbursements of the Social Security trust funds from the unified budget effective in fiscal year 1986, and to restrict consideration of legislative changes in Social Security as part of the congressional budget process. It also contained measures to bring the Federal budget into balance by fiscal year 1991, and under those measures, Social Security income and outgo was to be used in calculating the Federal deficit. However, the benefits were made exempt from any automatic cuts required to reduce the deficit. Moreover, the act contained provisions making it difficult for Social

Security changes to be brought up in the congressional budget process by permitting the raising of ``points of order'' against such measures.

LEGISLATIVE CHANGES MADE IN THE 100TH CONGRESS

Extend FICA tax to certain earnings.--

Armed Services reservists.--FICA taxes were extended to ``inactive duty training'' (generally weekend training drill sessions).

Agricultural workers.--Wages paid to an employee who received less than $150 in annual cash remuneration by an agricultural employer were subject to FICA if the employer paid more than $2,500 in the year to all employees, provided the employee: (1) is a hand harvest laborer and is paid on a piece-rate basis in an operation which has been customarily recognized as having been paid on a piece-rate basis in the region of employment, (2) commutes daily from his or her permanent residence, and (3) has been employed in agriculture less than 13 weeks during the preceding calendar year.

Individuals aged 18-21.--FICA taxes were extended to services performed by individuals between the ages of 18 and 21 who are employed in their parent's trade or business.

Spouses.--FICA taxes were extended to services performed by an individual in the employ of his or her spouse's trade or business.

Tips.--The employer's share of FICA taxes was extended to include all cash tips (up to the Social Security wage base).

Phase-out of reduction in windfall benefits.--The phase-out of the reduction of benefits for workers with noncovered pensions was changed from 25 through 30 years of Social

Security coverage to 20 through 30 years.

Treatment of group-term life insurance wages under FICA.--Employer-provided group-term life insurance was included in wages for FICA tax purposes if such insurance were includable for gross income tax purposes, effective January 1, 1988.

Correction in government pension offset.--Federal employees who switch from the Civil Service Retirement System (CSRS) to the Federal Employees' Retirement System (FERS) on or after January 1, 1988 were exempted from the government pension offset only if they had 5 or more years of Federal employment covered by Social Security after December 31, 1987.

Continuation of disability benefits pending appeal.--The existing provision for continued payment of disability benefits during the administrative appeal process was extended through 1989.

Lengthening the extended period of eligibility for disability benefits.--The extended period of eligibility during which a disability beneficiary who returns to work may become automatically reentitled to benefits was lengthened from 15 months to 36 months. Medicare eligibility was not continued beyond the period provided under current law.

Payment of attorneys' fees.--The administrative policy which permitted administrative law judges to authorize attorneys' fees of up to $3,000 without approval by an SSA regional office was reinstated.

LEGISLATIVE CHANGES MADE IN THE 101ST CONGRESS

Continuation of disability benefits during appeal.--The provision permitting disability insurance beneficiaries to elect to have their benefits continued during appeal was made permanent.

Payment of benefits to a child adopted after a parent's entitlement to retirement or disability benefits or adopted by a surviving spouse.--A child adopted after a worker became entitled to retirement or disability benefits was made eligible for child's insurance benefits regardless of whether he or she was living with and dependent on the worker prior to the worker's entitlement. A child adopted by the surviving spouse of a deceased worker was made eligible for benefits regardless of whether he or she had been receiving support from anyone other than the worker and the worker's spouse, as long as the child either lived with the worker or received one-half support from the worker in the year preceding the worker's death.

Repeal of carryover reduction in retirement or disability insurance benefits due to receipt of widow(er)'s benefits before age 62.--The carryover reduction applied to retirement or disability benefits received by widow(er)s who collected widow(er)'s benefits before age 62 was eliminated.

Improvements in Social Security Administration services and beneficiary protections.--A number of improvements were made in SSA procedures regarding correction of earnings records; standards applicable in determinations of fault, good faith and good cause; same-day interviews on time-sensitive matters; notices sent to blind Social Security beneficiaries; legal representatives of claimants; and the avenues of recourse open to potential applicants who lose benefits because SSA provides them with inaccurate or incomplete information. In addition, SSA was required to issue a report on options for increasing its use of foreign language notices. Conforming changes were also made in the Supplemental Security Income program as applicable.

Earnings and benefit statements.--SSA was required, upon request, to provide individuals with a statement of their earnings and contributions and an estimate of their future benefits. Beginning in 1995, these statements will be provided to all individuals who attain age 60. Beginning in October 1999, these statements will be provided annually to all workers covered under Social Security.

Inclusion of certain deferred compensation in the calculation of average wages under the Social Security Act.--Contributions to deferred compensation plans, including amounts deferred in 401(k) plans, were included in the determination of average wages for Social Security purposes.

Treatment of refunds by employers under the Medicare Catastrophic Coverage Act of 1988 for FICA and other purposes.--Refunds provided to individuals by employers under the maintenance-of-effort provision of the Medicare Catastrophic Coverage Act of 1988 were excluded from wages for FICA, FUTA, and railroad retirement and railroad unemployment insurance tax purposes. In addition, the Secretary of the Treasury was given authority to prescribe the manner in which the refunds were to be reported.

Extension of Social Security coverage exemption for members of certain religious faiths.--The exemption from Social Security coverage for workers who are members of certain religious groups was extended to: (a) qualifying employees of partnerships in which each partner holds a religious exemption from Social Security coverage, and (b) qualifying employees of churches and church-controlled nonprofit organizations who would otherwise be covered as self-employed for purposes of Social Security taxation.

Prohibition against termination of coverage of U.S. citizens and residents employed abroad by a foreign affiliate of an American employer.--American employers were prohibited from terminating the Social Security coverage of U.S. citizens and residents employed abroad in their foreign affiliates.

Extension of disability insurance program demonstration project authority.--The authority of the Secretary of HHS to conduct work incentive demonstration projects was extended for three additional years.

Inclusion of employer cost of group-term life insurance in compensation under the Railroad Retirement Tax Act.--Employer-paid premiums for group-term life insurance coverage in excess of $50,000 were made subject to the railroad retirement payroll tax, bringing the treatment of such premiums into conformity with their treatment under the Social Security Act.

Inclusion of deferred compensation arrangements, including 401(k) plans, in compensation under the Railroad Retirement Tax Act.--Contributions to 401(k) deferred compensation plans were made subject to the railroad retirement payroll tax, bringing the treatment of such contributions into conformity with their treatment under the Social Security Act.

Codification of the Rowan decision with respect to railroad retirement.--Except for meals and lodging provided for the convenience of the employer, it was stipulated that nothing in Internal Revenue Service (IRS) regulations defining wages for purposes of the income tax is to be construed as requiring a similar definition for purposes of the railroad retirement payroll tax, thus conforming the Railroad Retirement Tax Act to the Social Security Act.

Extension of general fund transfers to railroad retirement tier II trust fund.--The transfer of proceeds from the income taxation of railroad retirement Tier II benefits from the general fund of the Treasury to the railroad retirement trust fund was extended to October 1, 1992.

Social Security coverage of State and local employees not covered by a public retirement system.--Employees of State and local governments (excluding students who are employed by public schools, colleges or universities) who are not covered by a public retirement system were covered by Social Security and Medicare (i.e., Old-Age, Survivors, and Disability Insurance (OASDI) and Hospital Insurance (HI); effective after July 1, 1991.

Budgetary treatment of Social Security trust funds.--

The Social Security trust funds (OASDI Trust Funds) were removed from the calculation of the deficit under the Gramm-Rudman-Hollings law beginning with fiscal year 1991; thus, Social Security was taken ``off budget.'' The trust funds were protected by points of order in the House and Senate against legislation which would reduce trust fund balances.

Improvement of the definition of disability applied to disabled widow(er)s.--The stricter definition of disability that was previously applied only to widow(er)s was repealed. Instead, a disabled widow(er) was made subject to the same definition of disability as already applied to disabled workers.

Improvements in the OASDI and supplemental security income (SSI) representative payee system.--The representative payee system was improved by: (a) requiring the Secretary of Health and Human Services (the Secretary) to conduct a more extensive investigation of the representative payee applicant; (b) providing stricter standards in determining the fitness of the representative payee applicant to manage benefit payments on behalf of the beneficiary; and (c) directing the Social Security Administration to make recommendations regarding the application of stricter accounting procedures to certain high-risk representative payees.

In addition, certain community-based nonprofit social service agencies providing representative payee services of last resort were allowed to collect a fee from an individual's Social Security or SSI benefit for expenses incurred in providing such services.

Streamlining of the attorney fee payment process.--The process by which SSA reviews and approves any fee charged by an attorney representing a claimant before the agency was reformed. The existing fee petition process was generally replaced by a streamlined procedure under which fees are paid up to a limit of 25 percent of past-due benefits not to exceed $4,000, unless the attorney, claimant, or administrative law judge objects. The fee petition was retained in cases for which the fee requested exceeds the limits, or if the determination made on the claim is not favorable.

Improvements in SSA services and beneficiary protections.-- The Secretary was required to carry out a demonstration to test ways to improve procedures for providing service by telephone. In addition, when a claimant who is denied benefits reapplies, rather than appealing, based on inaccurate or misleading information from SSA, the failure to appeal would not constitute a basis for denial of the second application. New requirements were also established for improvements in notices regarding title II and title XVI benefits.

Restoration of telephone access to the local offices of SSA.--SSA was required to reestablish telephone access to its local offices at the level generally available on September 30, 1989, the day before it established a national 800 number and cut off access to local offices serving 40 percent of the population.

Creation of a rolling 5-year trial work period for all disabled beneficiaries.--Effective January 1, 1992, the trial work period was liberalized so that a disabled beneficiary would exhaust this period only after completing 9 trial work months in any rolling 60-month period. In addition, beneficiaries would receive a new trial work period for each period of eligibility.

Continuation of benefits on account of participation in a non-State vocational rehabilitation program.--Beneficiaries who medically recover while participating in an approved non-State vocational rehabilitation program were granted the same benefit continuation rights as those who medically recover while participating in a State-sponsored program.

Limitation on new entitlement to special age-72 payments.-- The provision precluded the unintended payment of so-called ``Prouty benefits,'' which were enacted in 1966 to help workers who were too old to earn sufficient quarters of coverage to qualify for regular benefits. Because of subsequent amendments to the law, it was theoretically possible for some workers to qualify for Prouty benefits after 1990, even though, when enacted, they were not expected to be paid to anyone who reached age 72 after 1971.

Elimination of advance tax transfer.--The Social Security trust funds were credited with tax receipts as they were collected throughout the month, rather than in advance (at the first of the month), as under previously existing law. However, the advance tax-transfer mechanism (enacted to help meet the

Social Security funding emergency that existed prior to the 1983 amendments) was retained as a contingency to be used if the trust funds drop to such a low level that it is needed in order to pay current benefits.

Repeal of retroactive benefits for certain categories of individuals.--Retroactive benefits were eliminated for two categories of individuals eligible for reduced benefits: (a) those with dependents entitled to unreduced benefits, and (b) those with preretirement earnings over the amount allowed under the retirement test who had used the retroactive benefits to charge off their excess earnings.

Consolidation of old computation methods.--A number of little-used, pre-1968 benefit computation formulas were eliminated.

Suspension of dependents' benefits when a disabled worker is in an extended period of eligibility.--Current SSA practice regarding the nonpayment of benefits to a disabled worker's dependents when that worker is in an extended period of eligibility and is not receiving monthly Social Security benefits was codified.

Payment of benefits to a deemed spouse and a legal spouse.--Eligibility requirements for payment of benefits to a ``deemed spouse''--a spouse whose marriage is found to be invalid--were changed so that the entitlement of the worker's legal spouse would no longer terminate payment of benefits to a deemed spouse.

Creation of a vocational rehabilitation demonstration project.--SSA was required to carry out a demonstration project testing the advantages and disadvantages of permitting disabled Social Security beneficiaries to select a qualified vocational rehabilitation provider, either public or private, from which to receive services aimed at enabling them to obtain work and leave the disability rolls.

Use of Social Security number by certain legalized aliens.--Certain aliens who were granted amnesty under the provisions of the Immigration Reform and Control Act of 1986 were exempted from criminal penalties for fraudulent use of a Social Security card. The exemption did not apply to those individuals who sold Social Security cards, possessed cards with intent to sell, or counterfeited or possessed counterfeited cards with the intent to sell.

Reduction in amount of wages needed to earn a year of coverage toward the special minimum benefit.--Effective in 1991, the amount of earnings needed to earn a year of coverage toward the special minimum benefit (designed to assist long-term, low-wage workers) was reduced from 25 percent of the ``old law'' contribution and benefit base ($10,725 in 1993), to 15 percent of the base ($6,435 in 1993).

Charging of earnings of corporate directors.--A provision of previous law that treated a corporate director's earnings as taxable when the services to which they are attributable were performed was repealed. A director's earnings continue to be treated as received when the services are performed for purposes of the Social Security retirement test.

Collection of employee Social Security tax on group-term life insurance.--In cases where an employer continues to provide taxable group-term life insurance to an individual who has left his employment, the former employee was required to pay the employee portion of the Social Security tax directly.

Waiver of the 2-year waiting period for certain divorced spouses.--The 2-year waiting period for independent entitlement to divorced spouse benefits was waived in cases where the worker was entitled to benefits prior to the divorce.

Pre-effectuation review of favorable decisions by the Social Security Administration.--The percentage of favorable decisions made by State disability determination services that must be reviewed by SSA was reduced from 65 percent of all such decisions to 50 percent of allowances and as many continuances as are required to maintain a high level of accuracy in such decisions. The reviews are to be targeted on those cases most likely to contain errors.

Recovery of overpayments from former Social Security beneficiaries through tax refund offset.--SSA was permitted to recover overpayments from former beneficiaries through arrangements with the Internal Revenue Service (IRS) to offset the former beneficiary's tax refund.

LEGISLATIVE ACTION DURING THE 102D CONGRESS

No amendments to title II of the Social Security Act were made during the 102d Congress.

LEGISLATIVE ACTION DURING THE 103D CONGRESS

No amendments to title II of the Social Security Act were made during the first session of the 103d Congress.